

RURAL WATER DISTRICT NO. 1

MARION COUNTY, KANSAS

Independent Auditor's Report

December 31, 2015

Rural Water District No. 1, Marion County, Kansas

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Knudsen Monroe & Company LLC

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District No. 1
Marion County, Kansas

We have audited the accompanying financial statements of Rural Water District No. 1, Marion County, Kansas, as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Water District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Water District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water District, as of December 31, 2015 and 2014, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

Required Supplemental Information

Management has omitted the Management Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Krudsen, Monroe & Company, LLC

Certified Public Accountants

Newton, Kansas

March 7, 2016

Rural Water District No. 1, Marion County, Kansas

STATEMENTS OF NET POSITION

December 31, 2015 and 2014

| | 2015 | 2014 |
|---|------------|---------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 93,263 | 96,059 |
| Certificates of deposit | 61,048 | 60,813 |
| Receivables, less allowances for doubtful accounts of \$6,000 and \$8,000 in 2015 and 2014, respectively | 10,769 | 13,771 |
| Prepaid expenses | 600 | 600 |
| Total current assets | 165,680 | 171,243 |
| CAPITAL ASSETS | | |
| Capital assets not being depreciated | 17,750 | 17,750 |
| Capital assets, net of accumulated depreciation | 512,659 | 541,446 |
| Total capital assets | 530,409 | 559,196 |
| OTHER ASSETS | | |
| Loan fees - net of accumulated amortization \$7,053 and \$6,604 in 2015 and 2014, respectively | 3,596 | 4,045 |
| Restricted investment - KDHE loan reserve | 32,852 | 32,852 |
| Total other assets | 36,448 | 36,897 |
| Total assets | \$ 732,537 | 767,336 |
| <u>LIABILITIES AND NET POSITION</u> | | |
| LIABILITIES | | |
| Current portion of long-term debt | \$ 15,580 | 15,035 |
| Accounts payable | 4,853 | 3,244 |
| Accrued interest payable | 2,334 | 2,539 |
| Other accrued expenses | 3,074 | 3,153 |
| Total current liabilities | 25,841 | 23,971 |
| NONCURRENT LIABILITIES | | |
| Long-term debt, net of current portion | 157,388 | 172,968 |
| Total liabilities | 183,229 | 196,939 |
| NET POSITION, Page 4 | | |
| Net investment in capital assets | 357,441 | 371,193 |
| Restricted | 32,852 | 32,852 |
| Unrestricted | 159,015 | 166,352 |
| Total net position | 549,308 | 570,397 |
| Total liabilities and net position | \$ 732,537 | 767,336 |

See notes to financial statements

Rural Water District No. 1, Marion County, Kansas

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years ended December 31, 2015 and 2014

| | 2015 | 2014 |
|--|-------------------|----------------|
| REVENUES | | |
| Water sales | \$ 163,342 | 161,712 |
| Miscellaneous income | 13,733 | 1,660 |
| Total operating revenues | <u>177,075</u> | <u>163,372</u> |
| EXPENSES | | |
| Personnel | 49,586 | 49,971 |
| Utilities | 15,434 | 16,699 |
| Office supplies | 4,052 | 3,626 |
| Water protection fees | 1,822 | 2,004 |
| Meeting expense | 370 | - |
| Chemicals and lab fees | 3,452 | 3,112 |
| Insurance | 9,867 | 9,534 |
| Repairs | 65,118 | 30,661 |
| Mileage | 8,450 | 7,592 |
| Professional fees | 4,642 | 3,075 |
| Other fees | 644 | 695 |
| Depreciation | <u>28,787</u> | <u>29,076</u> |
| Total operating expenses | <u>192,224</u> | <u>156,045</u> |
| Operating income (loss) | <u>(15,149)</u> | <u>7,327</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | 322 | 667 |
| Interest expense | (5,767) | (6,438) |
| Bad debt expense | (8,446) | (1,614) |
| Amortization of bond issuance costs | <u>(449)</u> | <u>(449)</u> |
| Total nonoperating revenues (expenses) | <u>(14,340)</u> | <u>(7,834)</u> |
| Loss before other revenues | (29,489) | (507) |
| OTHER REVENUES | | |
| Benefit unit sales | <u>8,400</u> | <u>12,600</u> |
| Changes in net position | (21,089) | 12,093 |
| NET POSITION, beginning of year | <u>570,397</u> | <u>558,304</u> |
| NET POSITION, end of year | <u>\$ 549,308</u> | <u>570,397</u> |

See notes to financial statements

Rural Water District No. 1, Marion County, Kansas

STATEMENTS OF CASH FLOWS

Years ended December 31, 2015 and 2014

| | 2015 | 2014 |
|--|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from water sales | \$ 157,844 | 160,247 |
| Other cash received | <u>13,733</u> | <u>1,660</u> |
| | <u>171,577</u> | <u>161,907</u> |
| Cash paid for: | | |
| Salaries and payroll taxes | (49,611) | (47,487) |
| Other expenses | <u>(112,242)</u> | <u>(74,915)</u> |
| | <u>(161,853)</u> | <u>(122,402)</u> |
| Net cash provided by operating activities | <u>9,724</u> | <u>39,505</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of certificates of deposit | (235) | (598) |
| Interest income received | 322 | 667 |
| Purchase of capital assets | <u>-</u> | <u>(1,275)</u> |
| Net cash provided by (used in) investing activities | <u>87</u> | <u>(1,206)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Long-term debt payments | | |
| Interest paid | (5,972) | (6,632) |
| Principal paid | (15,035) | (21,621) |
| Benefit unit sales | <u>8,400</u> | <u>12,600</u> |
| Net cash used in financing activities | <u>(12,607)</u> | <u>(15,653)</u> |
| Net increase (decrease) in cash and cash equivalents | (2,796) | 22,646 |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>96,059</u> | <u>73,413</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 93,263</u> | <u>96,059</u> |

See notes to financial statements

Rural Water District No. 1, Marion County, Kansas

STATEMENTS OF CASH FLOWS
(Continued)

Years ended December 31, 2015 and 2014

| | <u>2015</u> | <u>2014</u> |
|---|-----------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Operating income, Page 4 | \$ (15,149) | 7,327 |
| Adjustments to reconcile change in operating income to net cash provided by operating activities | | |
| Depreciation | 28,787 | 29,076 |
| (Increase) in receivables | (5,444) | (1,525) |
| (Increase) decrease in prepaid expenses | - | (600) |
| Increase in accounts payable and accrued expenses | <u>1,530</u> | <u>5,227</u> |
| Net cash provided by operating activities | <u>\$ 9,724</u> | <u>39,505</u> |
| NONCASH ACTIVITY | | |
| Increase in bad debt expense | <u>\$ 8,446</u> | <u>-</u> |
| Amortization of bond issuance costs | <u>\$ 449</u> | <u>449</u> |

Rural Water District No. 1, Marion County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Rural Water District No. 1, Marion County, Kansas was incorporated and organized on July 8, 1968, by order of the Board of County Commissioners, Marion County, Kansas under provisions of K.S.A. 82a-613. The Water District was organized to provide water for rural Marion County residents. The Water District is a Kansas municipality and is exempt from federal and state income taxes.

Basis of Accounting

The financial statements of the Water District have been prepared using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred. Uncollected water service receivables are recorded at year end.

Capital Assets

Capital assets are recorded at cost. The water system is depreciated on the straight-line method over an estimated useful life of forty years. The other capital assets are depreciated on the straight-line method over estimated useful lives of seven to forty years. At December 31, 2015 and 2014, property assets consist of the following:

| | 2015 | 2014 |
|--------------------------------------|-------------------|------------------|
| Capital assets not being depreciated | | |
| Land | \$ 5,750 | 5,750 |
| Well easement | 12,000 | 12,000 |
| | <u>\$ 17,750</u> | <u>17,750</u> |
| Capital assets being depreciated | | |
| Water system and line | \$ 1,019,105 | 1,019,105 |
| Water tower | 286,937 | 286,937 |
| | <u>1,306,042</u> | <u>1,306,042</u> |
| Less accumulated depreciation | <u>793,383</u> | <u>764,596</u> |
| | <u>\$ 512,659</u> | <u>541,446</u> |

Amortization

Issuance costs of water revenue bonds are amortized under the interest method over the repayment terms of the bonds.

Statement of Cash Flows

For purposes of the statement of cash flows, the Water District considers all highly liquid debt instruments purchased with a maturity of less than three months to be a cash equivalent. At December 31, 2015 and 2014, cash and cash equivalents consisted of demand and money market accounts with local financial institutions.

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Accounts Receivable

The Water District reports customer accounts receivable for water used at net realizable amounts. The Water District provides an allowance for doubtful accounts based upon review of outstanding receivables, historical collection information and existing economic conditions. Customer accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

2. CASH AND DEPOSITS

At December 31, 2015, the bank balance of the Water District's deposits, including certificates of deposit, was \$158,830. All of this balance was covered by FDIC insurance.

Certificates of Deposit

Certificates of deposit at the local bank consisted of the following at December 31:

| 2015 | | | | 2014 |
|--------------------|------------------|------------------|------------------|---------------|
| Date of Deposit | Maturity Date | Interest Rate | Amount | Amount |
| 4/1/2012 | 4/1/2016 | 0.14% | \$ 600 | 600 |
| 12/16/2013 | 6/16/2016 | 0.10% | 39,204 | 38,990 |
| 12/16/2013 | 12/16/2016 | 0.10% | 21,244 | 21,223 |
| | | | <u>\$ 61,048</u> | <u>60,813</u> |

3. RESTRICTED INVESTMENT - KDHE LOAN RESERVE

The loan agreement with the Kansas Department of Health and Environment (KDHE) requires ten percent of the loan proceeds to be held in a loan reserve account with the Kansas Development Finance Authority. Monies held in the loan reserve account are invested as a separate fund by the Kansas Development Finance Authority with earnings being credited to the Water District.

Rural Water District No. 1, Marion County, Kansas

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

4. LONG-TERM DEBT

The following is an analysis of long-term debt at December 31:

| | <u>2015</u> | <u>2014</u> |
|---|-------------------|----------------|
| Kansas Department of Health and Environment - due in semi-annual installments of principal and interest of \$10,804 at a fixed rate of 3.59% including service fee. Due February 1, 2025 | \$ 172,968 | 188,003 |
| Less current portion | <u>15,580</u> | <u>15,035</u> |
| Long-term portion | <u>\$ 157,388</u> | <u>172,968</u> |

Scheduled maturities of long-term debt:

| | |
|-------------|-------------------|
| 2016 | \$ 15,580 |
| 2017 | 16,143 |
| 2018 | 16,728 |
| 2019 | 17,333 |
| 2020 | 17,961 |
| 2021 - 2025 | <u>89,223</u> |
| | <u>\$ 172,968</u> |

Net revenues of the Water District have been pledged as security for the debt, and the Water District is required to maintain a special account in its financial records (in addition to the operating cash account). This requirement was met for the year ended December 31, 2015.

5. NET POSITION - RESTRICTED

Bond Reserve Account

| | <u>2015</u> | <u>2014</u> |
|--|------------------|---------------|
| Kansas Department of Health and Environment requires a 10% reserve account. | <u>\$ 32,852</u> | <u>32,852</u> |

6. DATE OF MANAGEMENT'S REVIEW

Management has performed an analysis of the activities and transactions subsequent to December 31, 2015, to determine the need for any adjustments to and/or disclosures within the audited financial statements. Management has performed their analysis through March 7, 2016, which is the date at which the financial statements were available to be issued.